
The Road to Balancing the 2005-06 Budget

Prepared and Presented by

Rosemarie Ives, Mayor

Lenda Crawford, Finance Director

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Purpose of Tonight's Presentation

- To ensure Council is continually updated on the General Fund's financial condition, understands the options available to balance the 2005-06 budget and acts upon those options in a timely manner.

Four Distinct Paths for Balancing the Budget

- Authorize additional revenue
- Reduce services and programs citywide
- Revise Council Policies
- Combination of new revenues, service/program reductions and policy revisions

Where We Are Today

- City expected to operate within its lowered revenues for 2003-2004 primarily due to cost containment measures.

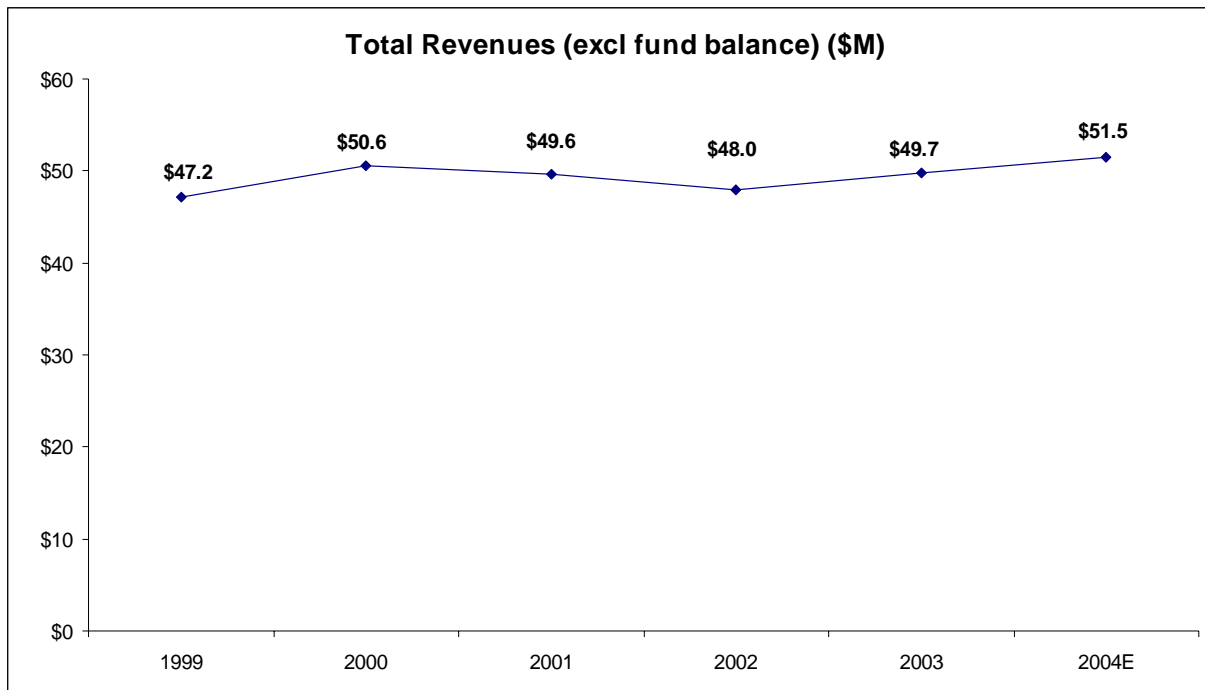
	2003-2004 Budget	2003-2004 Estimate	Difference
Revenues	\$106.7	\$103.0	(\$3.7)
Expenditures	\$106.7	\$101.3	\$5.4
Net Savings	\$0.0	\$1.7	\$1.7

- Net savings resulting from prudent management and favorable labor settlements.
- \$3.3 million economic contingency still available.

Revenue Trends

Total General Fund Revenues

- In total, City operating revenues have increased by only \$900,000 or 1.8% over the last four years due to weakness in the economy. On an annual basis, this equates to an average growth of \$225,000 or less than .5% per year.
- Inflation during this same period was 9% or an average of 2.2% per year.



Revenue Trends – Distribution of Revenues

- 77% of the City's General Fund revenues are derived from five sources.

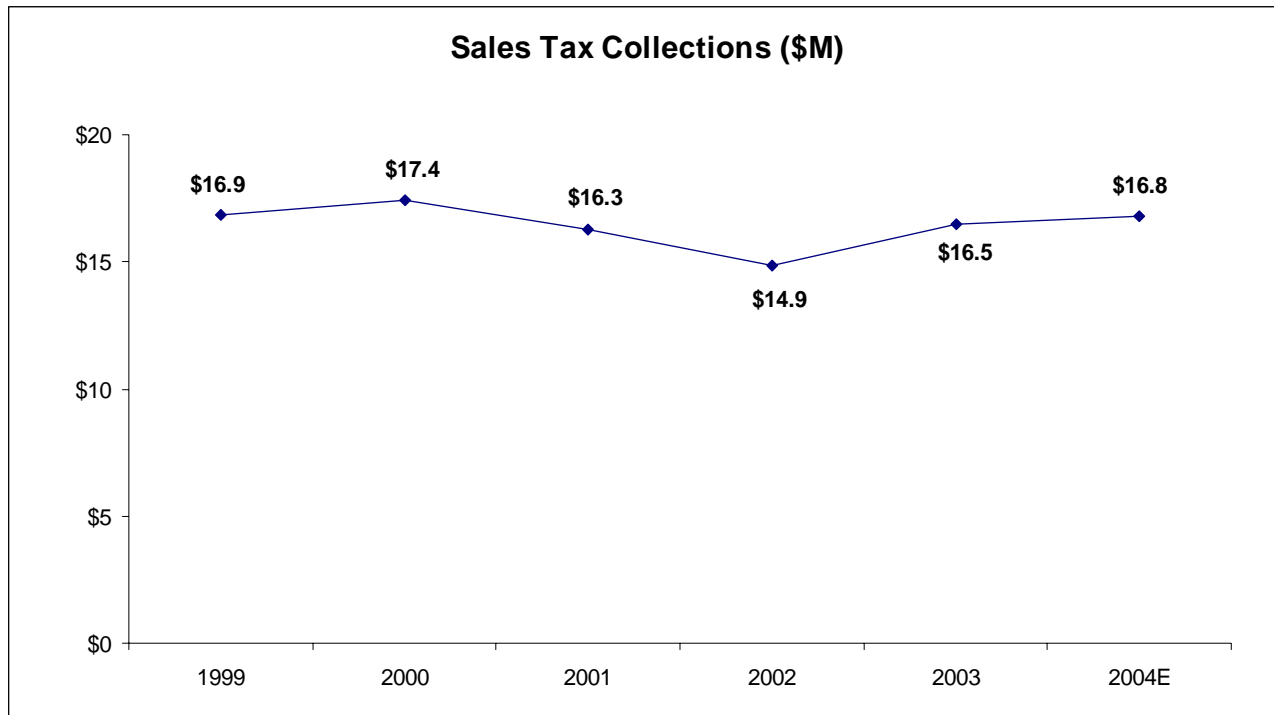
Major Revenue Sources	2003-04 Budget	
	Amount	% of Total
Sales and use taxes	\$32.8	31%
Property Tax	\$20.1	19%
Utility Taxes	\$18.7	17%
Development Review	\$7.9	7%
Investment Interest	\$2.5	2%
Major Sources Total	\$81.9	77%
Other Revenues		
Intergovernmental	\$12.2	11%
Interfund payments	\$5.4	5%
Business Licenses	\$1.6	1%
Fines and other revenues	\$1.0	1%
Other Taxes	\$2.8	3%
Beginning Fund Balance	\$1.9	2%
Other Sources Total	\$24.8	23%
Total - 2003-04 Budgeted Revenues	\$106.7	

- All of which are sensitive to changes in the economy and development activity

Revenue Trends – Economically Sensitive Sources

Sales Taxes

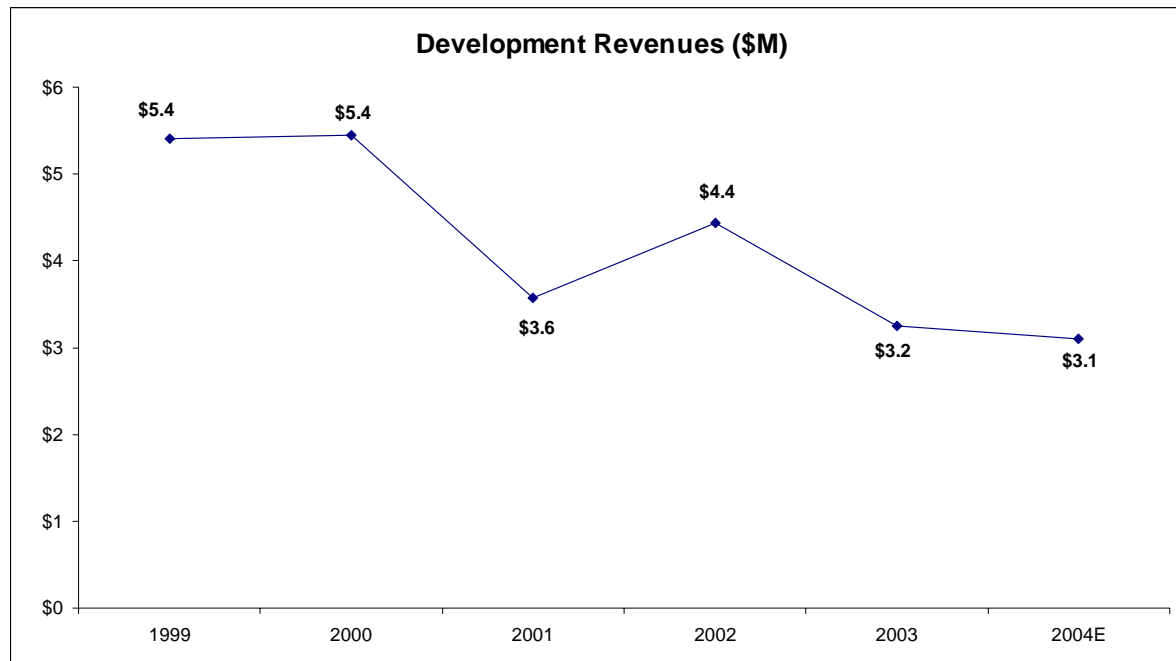
- City still has not recovered ground lost over last several years.



Revenue Trends – Economically Sensitive Sources

Development Revenues

- Development Fee revenue has declined by \$2.3M or 43% since its peak in 2000.
- It is important to note that once development is completed, it is cumulative to the base that the City must serve, compounding pressures on already strained operations and infrastructure.



Revenue Trends – Economically Sensitive Sources

Development Revenues

- During the peak, the City processed approximately 7.5 million square feet of new office space. This has declined to approximately 1.2 million of new commercial square footage in 2003-2004.

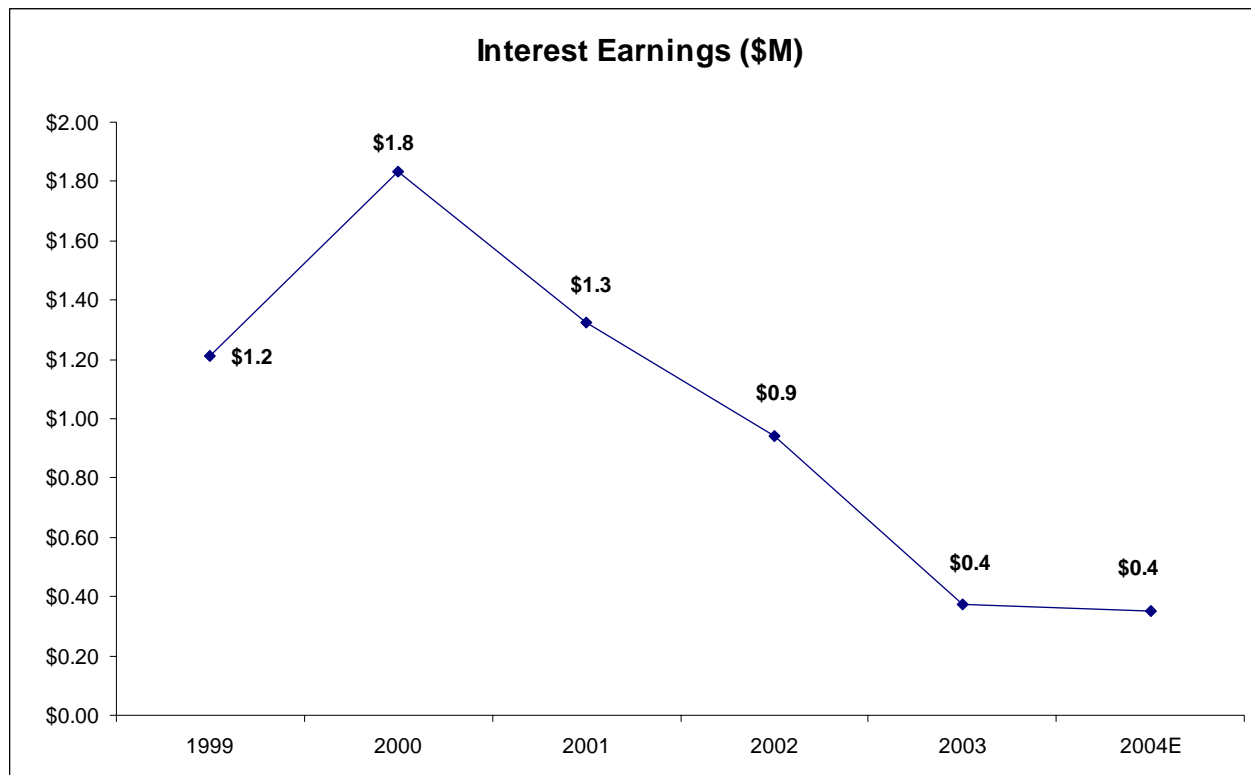
Development Square Footage by Type
1999-2000 vs. 2003-2004

Type of Development	1999-2000 Actual Sq. Ft.	2003-2004 Estimated Sq. Ft.	Percent Increase/Decrease
Commercial	7,514,000	1,220,000	(84%)
Multi-family	332,700	647,600	94%
Tenant Improvements	7,599,118	1,799,000	(76%)
Residential	<u>893,400</u>	<u>1,865,000</u>	<u>109%</u>
Total	16,339,218	5,531,600	(66%)

Revenue Trends – Economically Sensitive Sources

Interest Earnings

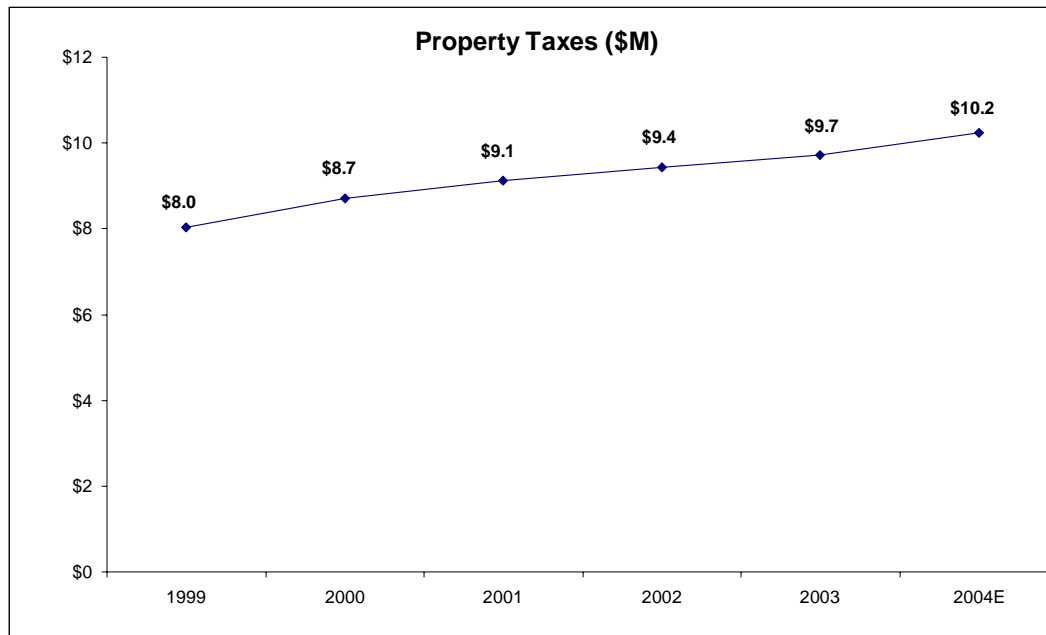
- Lower interest rates and a lower cash balance in the General Fund have caused this revenue to fall from \$1.8 million in 2000 to \$350,000 in 2004.



Revenue Trends

Property Tax

- Property tax growth during this period due primarily to new construction which tends to fluctuate with the economy.
- No property tax increases have been authorized by Council since 1999.



History of Redmond Property Tax Increases and Levy Rates

Year	% Increase	Regular City Levy Rate	Excess City Levy Rate	Total City Levy Rate
1981	6%	\$1.54	\$.82	\$2.36
1982	6%	\$1.59	\$.75	\$2.34
1983	6%	\$1.43	\$.59	\$2.02
1984	6%	\$1.64	\$.62	\$2.26
1985	6%	\$1.50	\$.52	\$2.02
1986	6%	\$1.68	\$.49	\$2.17
1987	6%	\$1.69	\$1.64	\$3.33
1988	6%	\$1.79	\$1.42	\$3.21
1989	6%	\$1.70	\$1.23	\$2.93
1990	6%	\$1.91	\$1.15	\$3.06
1991	6%	\$1.64	\$.82	\$2.46
1992	6%	\$1.72	\$.80	\$2.52
1993	6%	\$1.66	\$.69	\$2.35
1994	6%	\$1.77	\$.68	\$2.45

History of Redmond Property Tax Increases and Levy Rates

Property tax levies imposed by City have not kept pace with inflation over last 10 years. Inflation was 34.5% over the last decade. City increased property taxes by 8% during the same period.

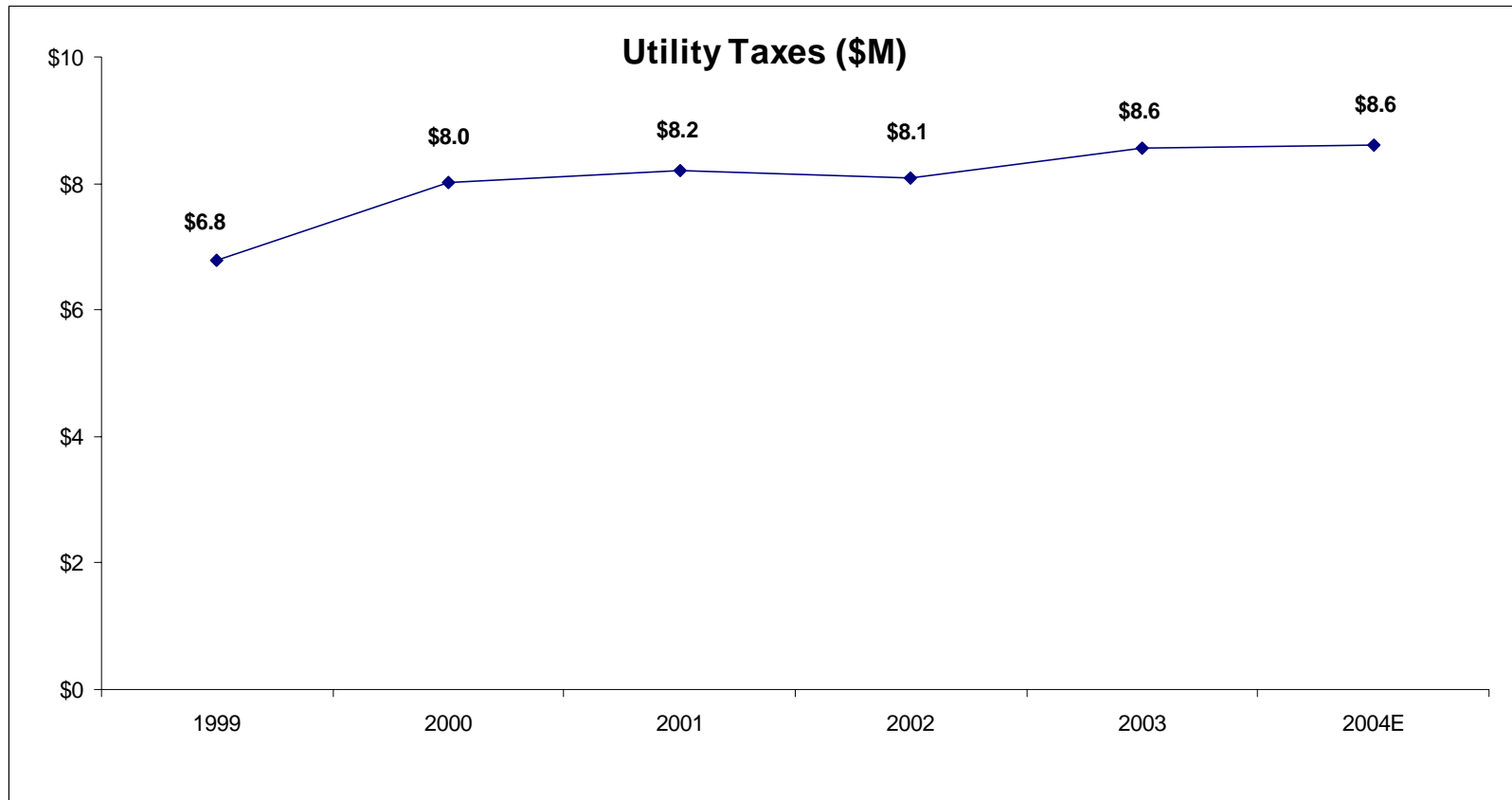
Year	% Increase	Regular City Levy Rate	Excess City Levy Rate	Total City Levy Rate
1995	0%	\$1.74	\$.72	\$2.46
1996	0%	\$1.74	\$.70	\$2.44
1997	3%	\$1.77	\$.62	\$2.39
1998	3%	\$1.75	\$.55	\$2.30
1999	2%	\$1.65	\$.48	\$2.13
2000	0%	\$1.59	\$.37	\$1.96
2001	0%	\$1.45	\$.31	\$1.76
2002	0%	\$1.31	\$.29	\$1.60
2003	0%	\$1.29	\$.28	\$1.57
2004	0%	\$1.31	\$.28	\$1.59

- Decision to not raise property taxes by the maximum from 1995 to 2004 = \$22.4M

Revenue Trends

Utility Taxes

- Utility Taxes has remained relatively flat.



Other Factors Affecting General Fund Revenues

■ Tax Initiatives

- High Technology Sales Tax Exemption – Approved by Legislature
 - Between 1994 to 2004, Redmond's revenue loss is \$13.8M
- \$30 car tab initiative approved by State Legislature
 - Between 2000 and 2004, revenue loss is \$2.9M
- Initiative 747 – Approved by Voters
 - Reduced City authority to levy property tax increase from 6% to 1% without voter approval

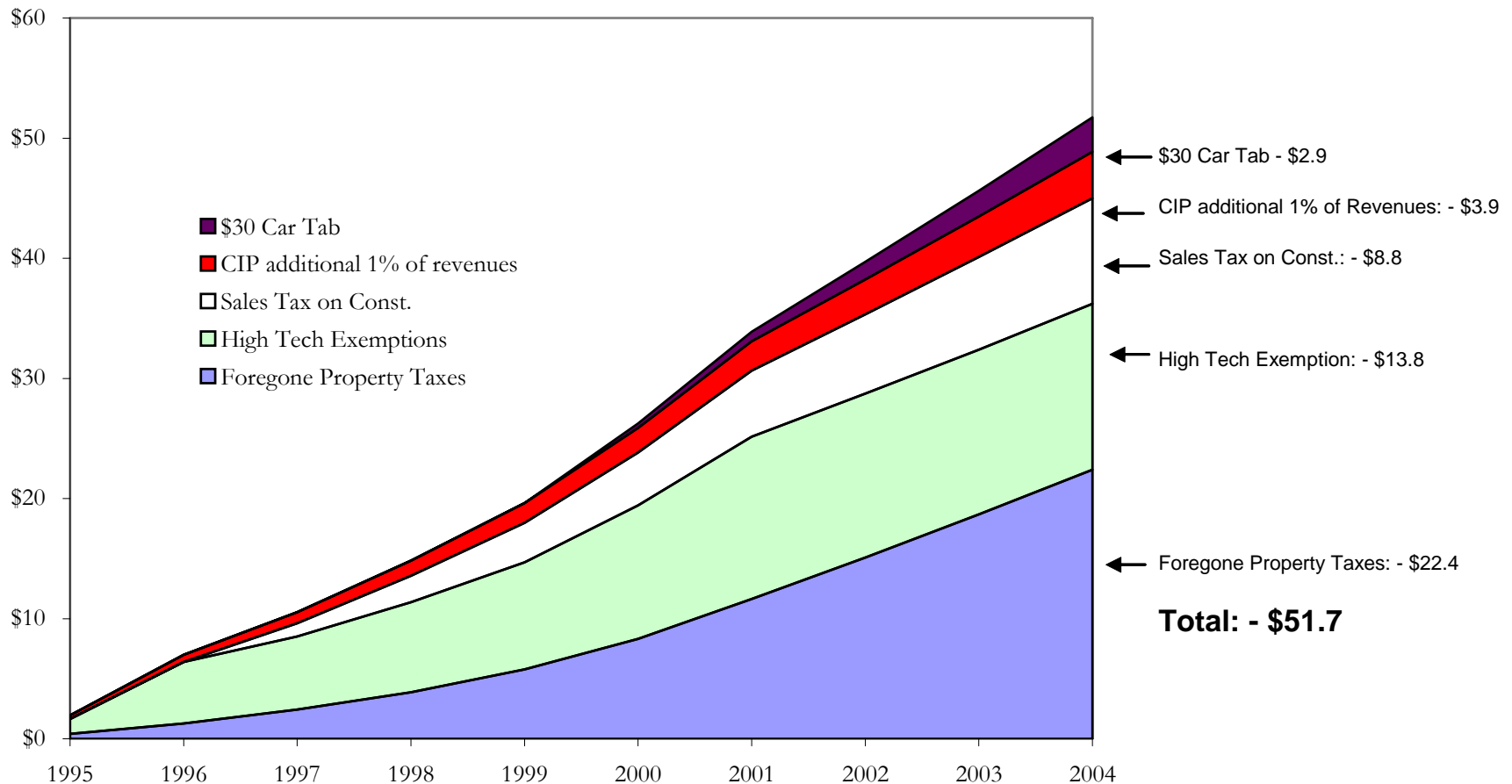
Other Factors Affecting General Fund Revenues

- City CIP Policies
 - Contribution increased from 4% to 5% of General Fund revenues in 1995. Cumulative effect of policy change since 1995 is \$3.9 million.
 - \$1.1M/yr Sales Taxes on construction transferred to the CIP beginning in 1997. Total transfers since 1997 are \$8.8 million.

Cumulative General Fund Losses by Category

- Impacts of past State approved initiatives and City policy changes = -\$51.7M

Cumulative General Fund Revenue Losses
by Category, 1995-2004 (\$M)



Comparison of Revenue and Expenditure Growth Rates (2000-2004)

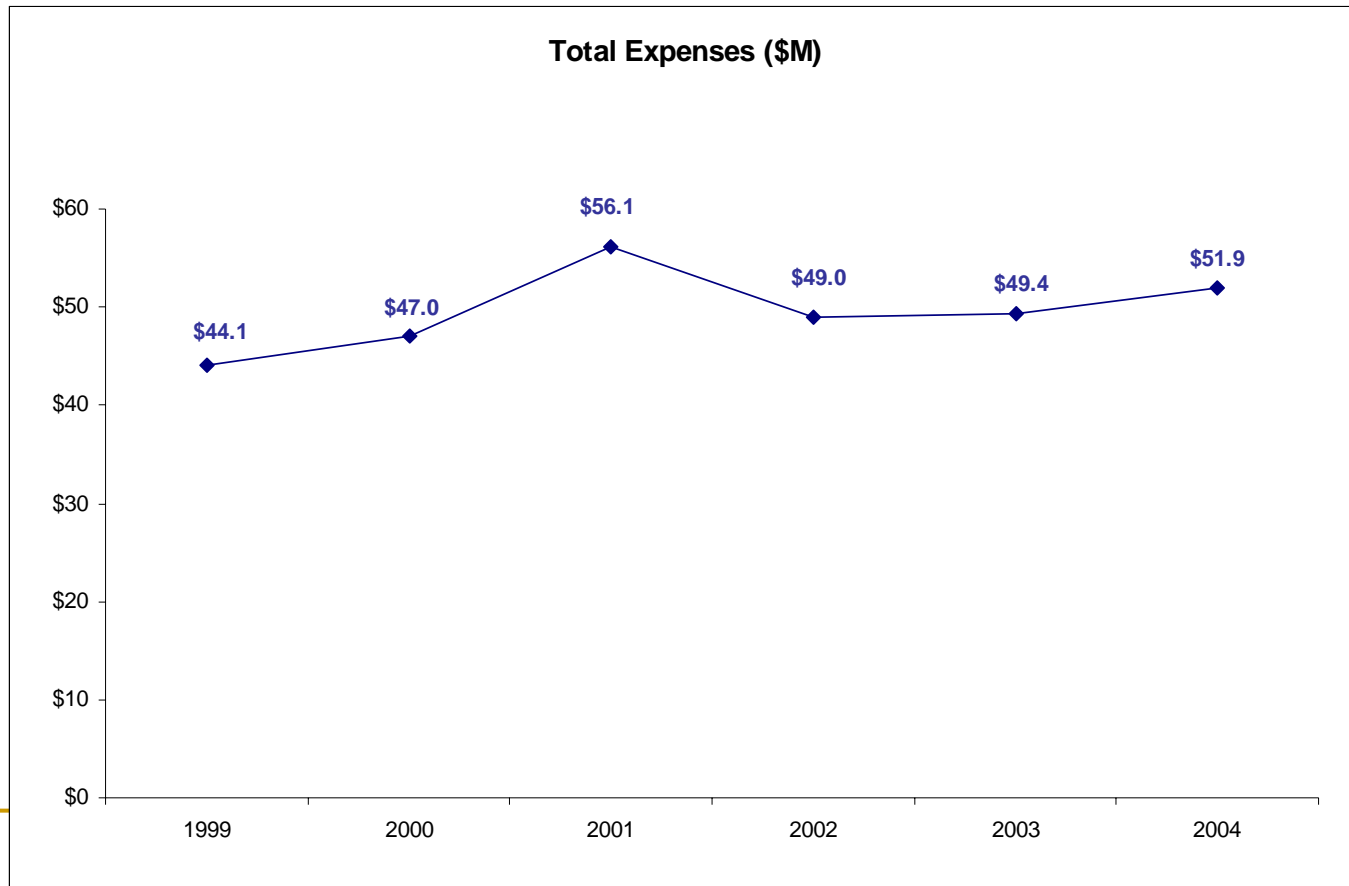
Operating expenditures are growing significantly faster than operating revenues.

	<u>Cumulative Growth</u>	<u>Avg. Annual Growth</u>
■ Revenues	1.8%	.45%
■ Expenditures	10.4%	2.5%
■ Inflation	9.0%	2.2%

Expenditure Trends

Total General Fund Expenditures

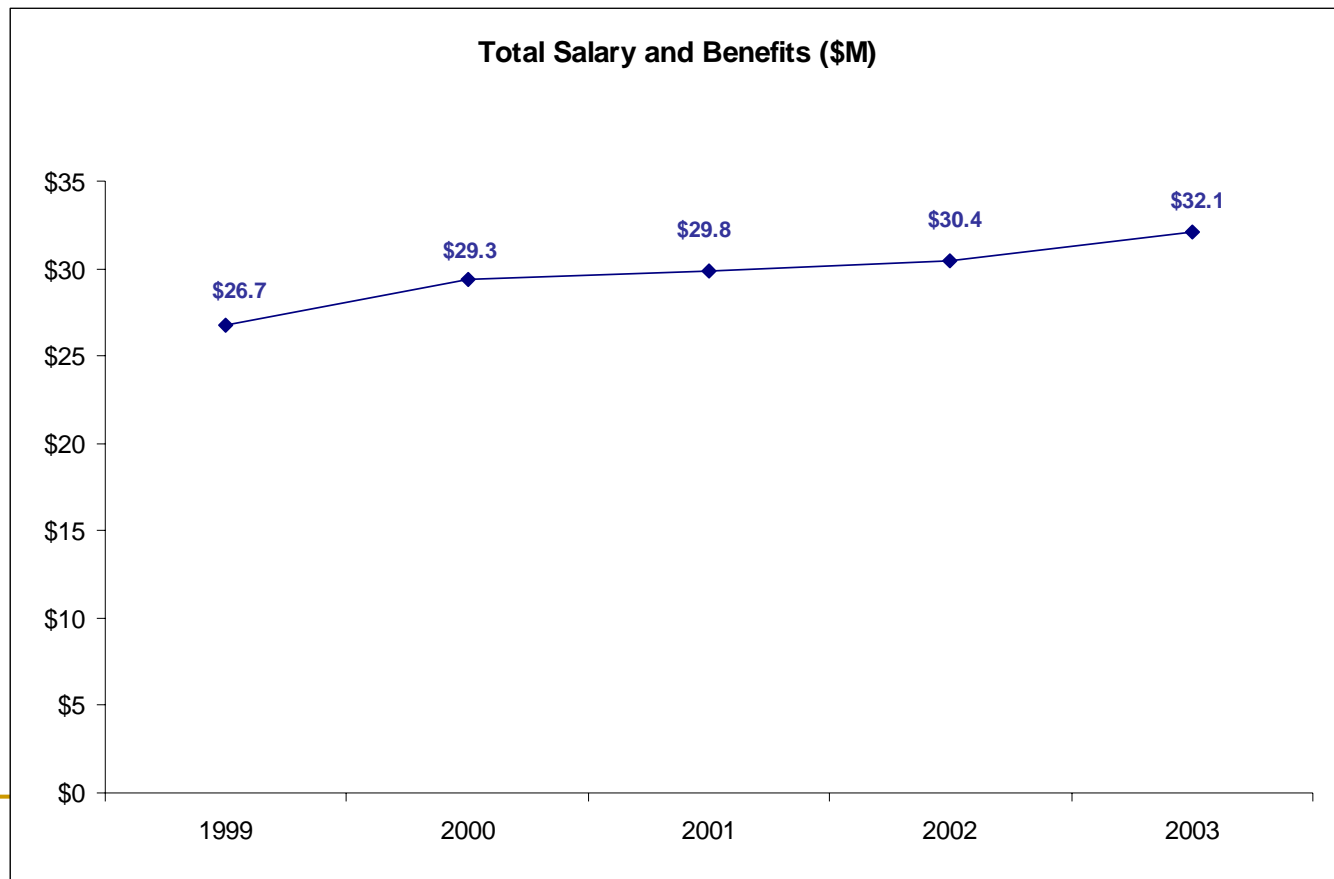
- City expenditures grew by \$4.9 million between 2000 and 2004 compared to revenue growth of \$900,000.
 - Expenditures grew slightly faster than inflation while revenue growth was considerably lower than inflation.



Expenditure Trends

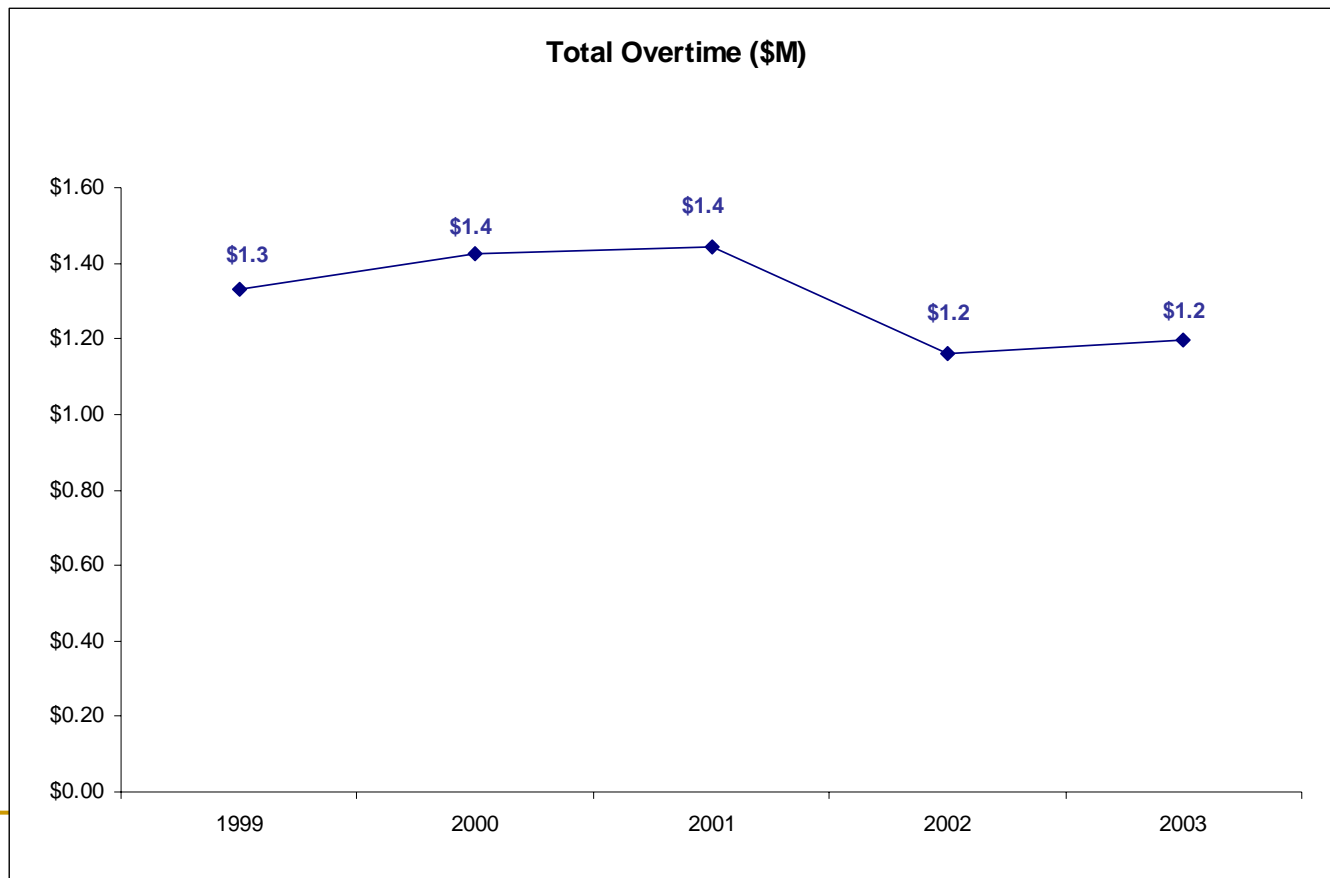
Salaries and Benefits

- Salaries and benefits is the City's largest expenditure category, comprising approximately 66% of the City's costs
- Between 2000 and 2003, salaries and benefits increased at average annual rate of 3.1%



Expenditure Trends Overtime

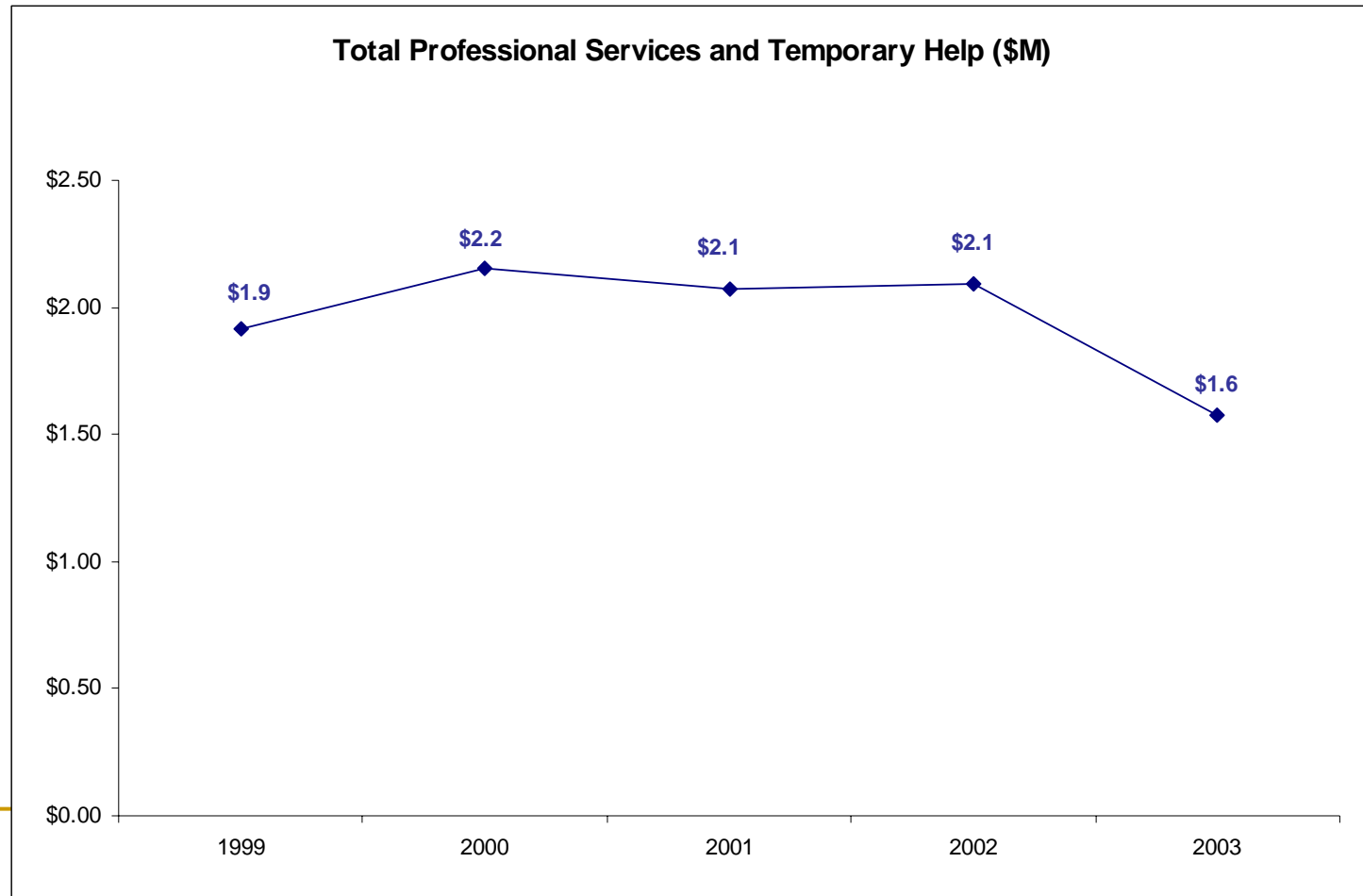
- Overtime expenditures has declined by an average 5% per year as the City has been working closely with the City's Fire Department and FD#34 to manage this cost.



Expenditure Trends

Professional Services/Supplemental Help

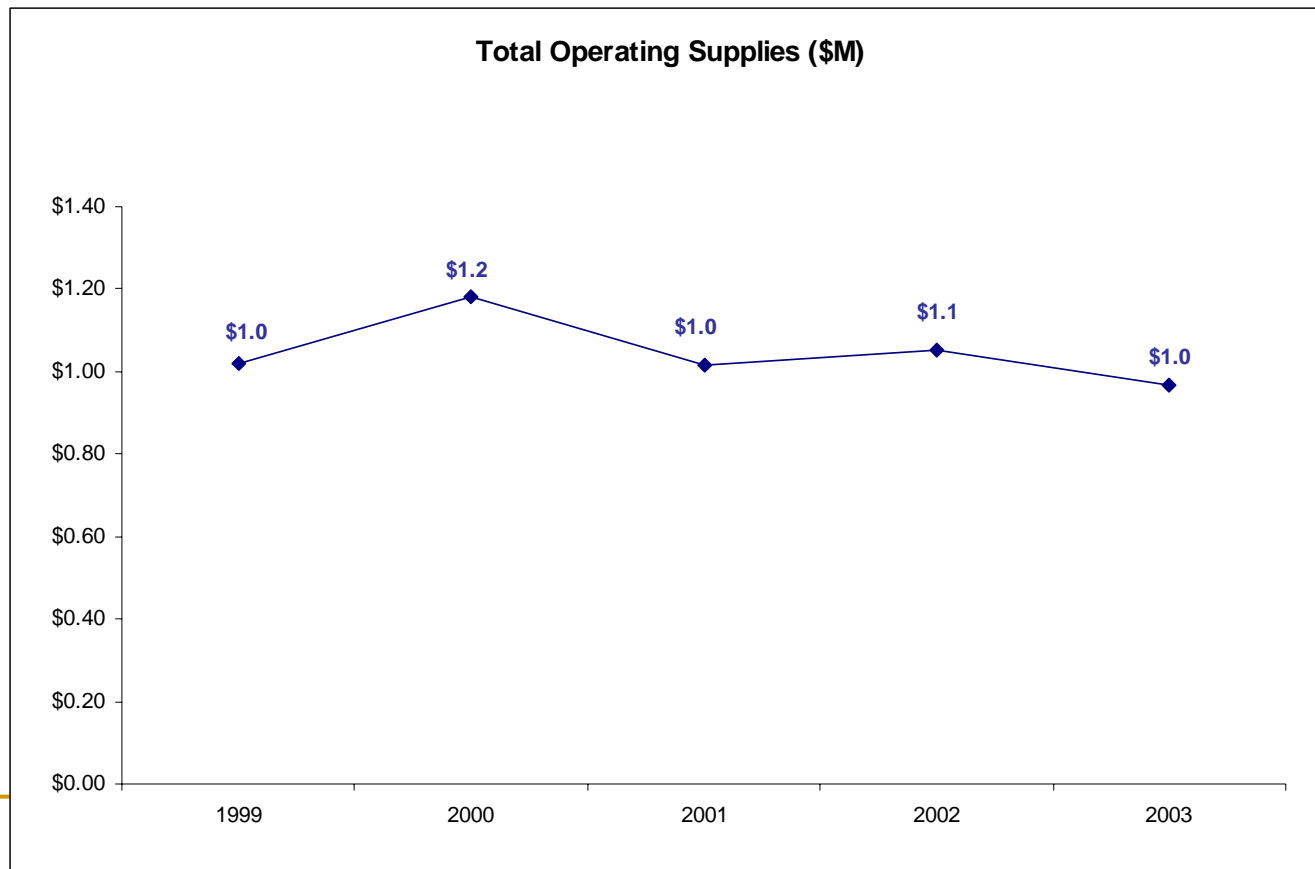
- This category has declined by a total of 27% over the past 4 years.



Expenditure Trends

Operating Supplies

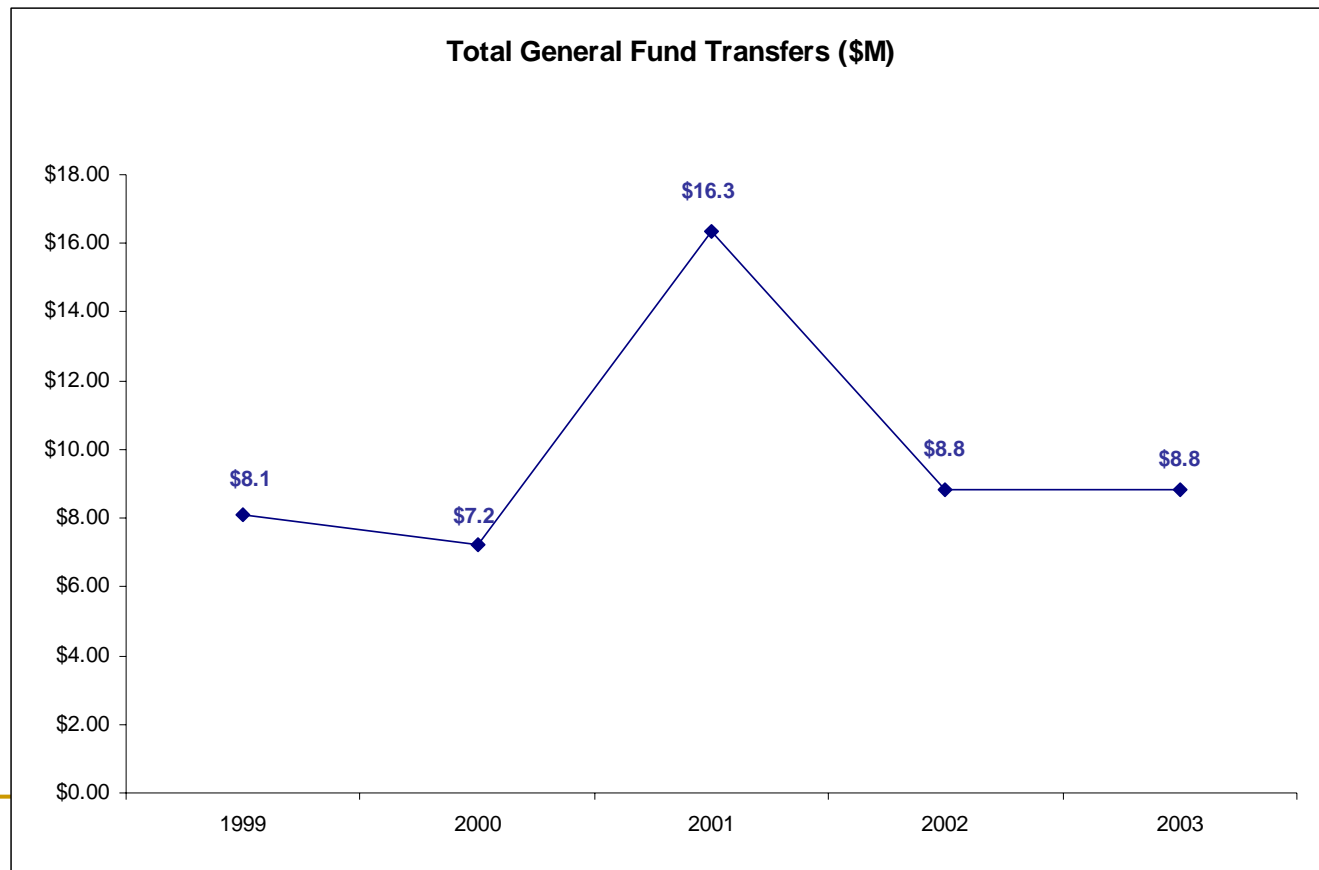
- Despite cost increases from the City's suppliers, these costs have remained relatively flat. No inflation adjustments have been given to departments over the last four years, although inflation increased by 9% during this period.



Expenditure Trends

Transfers to Other Funds

- Consistent with City fiscal policies, money is transferred from the General Fund to pay for functions/activities such as CIP, Information Technology, Fleet Maintenance, and Insurance.



How Departments Have Fared Over Last Four Years

- Departments have implemented many cost containment measures in response to the City's lowered revenues. These actions resulted in a savings of \$6.7 million in the 2001-02 biennium and \$5.4 million in 2003-04.

Department	2001-02 Budget	2001-02 Actual	Overexpenditure/ (Savings)	2003-04 Budget	2003-04 Actual	Overexpenditure/ (Savings)
Fire	\$21.4	\$21.7	\$0.3	\$21.8	\$22.1	\$0.3
Police	\$20.2	\$19.0	(\$1.2)	\$20.6	\$19.3	(\$1.3)
Public Works	\$15.6	\$15.2	(\$0.4)	\$16.1	\$15.3	(\$0.8)
Finance	\$10.4	\$9.4	(\$1.0)	\$10.2	\$9.6	(\$0.6)
Planning	\$10.5	\$9.5	(\$1.0)	\$10.9	\$9.7	(\$1.2)
Parks	\$8.0	\$7.7	(\$0.3)	\$9.1	\$8.3	(\$0.8)
Human Resources	\$1.6	\$1.5	(\$0.1)	\$1.7	\$1.6	(\$0.1)
Legal	\$1.1	\$1.1	\$0.0	\$1.4	\$1.4	\$0.0
Executive	\$1.0	\$0.9	(\$0.1)	\$1.0	\$1.0	\$0.0
Legislative	\$0.3	\$0.3	(\$0.1)	\$0.3	\$0.3	\$0.0
Non Departmental	\$21.7	\$18.8	(\$2.9)	\$13.6	\$12.7	(\$0.9)
Total	\$111.8	\$105.1	(\$6.7)	\$106.7	\$101.3	(\$5.4)
Under-expenditure Rate			-6.0%			-5.1%

Expenditure Trends – Cost Containment Measures

- 2003-04 Adopted Budget reduced expenditures by \$3.0M and 11.7FTEs.
- Subsequently mid-biennium, Departments had to further reduce expenditures by an additional \$5.4M.
- Cost containment measures have been the key in ensuring expenditures remain within lowered revenue limits. Actions include:
 - Reducing services and programs.
 - Closely scrutinizing use of overtime.
 - Filling vacancies only when absolutely necessary.
 - Negotiating and implementing health benefit cost containment measures.
 - Closely scrutinizing use of professional services and other operating expenses.

2005-2006 Budget Outlook

2005-2006 General Fund Outlook

- As we look forward to 2005-2006:
 - Modest recovery in the economy.
 - A shortfall is projected in 2005-06 as revenues will not be sufficient to fully fund all currently authorized positions and comply with the City's current fiscal policies.

2005-06 Base Budget Projections

	2003-04 <u>Budget</u>	2003-04 <u>Est. Actuals</u>	2005-06 <u>Budget</u>
Revenues	\$106.7	\$103.0	\$106.2
Expenditures	\$106.7	\$101.3	\$112.5
Surplus/(Deficit)	-	\$1.7	-\$6.3

2005-2006 Outlook Revenues

- 2005-06 budget-to- budget comparison shows revenues are projected to decline by \$500,000 over the 2003-04 Budget.

	2003-04 Budget	2003-04 Actual	2005-06 Budget	Difference (2003-04B vs 2005-06B) Amount
Sales Taxes	\$34.9	\$34.7	\$36.3	\$1.4
Property Taxes	\$20.1	\$20.0	\$21.3	\$1.2
Utility Taxes	\$18.7	\$17.2	\$18.0	-\$0.7
Development Fees	\$7.9	\$6.3	\$7.0	-\$0.9
Intergovernmental Revenues	\$17.0	\$16.7	\$17.0	\$0.0
Investment Interest	\$2.4	\$0.7	\$0.7	-\$1.7
Business Licenses	\$1.6	\$1.7	\$1.6	\$0.0
Other Revenues	\$4.1	\$5.7	\$4.3	\$0.2
	\$106.7	\$103.0	\$106.2	-\$0.5

2005-2006 Outlook

Major Revenue Assumptions

- Sales Taxes
 - Gradual improvement in the local economy expected to result in a modest increase of 5% per year. This equates to approximately \$1.4 million of additional revenue over the biennium. No major new retailers anticipated to locate in the City during 2005-06.
 - Assumes no impact due to potential State action on streamlining sales taxes
- Property Taxes
 - Assumes increase of 1%/year, maximum allowed under state law without a vote of the people. This will generate approximately \$110,000 annually or \$220,000 over the biennium
 - Assumes new construction at modest \$200,000 per year or \$400,000 for 2005-06.
- Utility Taxes
 - Have been adjusted downward to reflect actuals and then increased by 3% per year. Even with the 3% increase, these taxes will be approximately \$700,000 lower than the 2003-04 budget.

2005-2006 Outlook

Revenue Assumptions (continued)

- Development Fees
 - ❑ Commercial construction expected to remain weak as no major projects on the horizon.
 - ❑ Residential construction assumed to slow slightly with rise in interest rates
 - ❑ Continuation of 3% surcharge on planning fees to support technological improvements to permit processes
- Intergovernmental
 - ❑ Continuation of fire services contract with Fire District #34 (contract negotiations are virtually complete)
 - ❑ Sammamish/EFR fire services contract scheduled to terminate at the end of 2005 and is not expected to be renewed (loss of \$670,000 over the biennium)
- Investment Interest
 - ❑ Expected to remain at historic lows, reflecting low cash balances in the General Fund and only a modest rise in interest rates.
- Beginning Fund Balance
 - ❑ \$1.7 million fund balance forecasted for the end of 2003-04 due to prudent management and favorable labor settlements.
 - ❑ \$3.3 million Council economic contingency remains intact and unallocated

2005-2006 Outlook

Expenditures

- Funding required to pay for the present level of service is \$112.5 million which when compared to revenues results in a projected deficit of \$6.3 million for the 2005-06 budget.

	2003-04	2003-04	2005-06	Difference (2003-04B vs 2005-06B)
Department	Budget	Estimate	Budget	Amount
Fire	\$21.8	\$22.1	\$22.7	\$0.9
Police	\$20.6	\$19.3	\$22.8	\$2.2
Public Works	\$16.1	\$15.3	\$16.1	\$0.0
Finance	\$10.2	\$9.6	\$11.3	\$1.1
Planning	\$10.9	\$9.7	\$10.7	(\$0.2)
Parks	\$9.1	\$8.3	\$8.6	(\$0.5)
Human Resources	\$1.7	\$1.6	\$1.8	\$0.1
Legal	\$1.4	\$1.4	\$1.6	\$0.2
Executive	\$1.0	\$1.0	\$1.1	\$0.1
Legislative	\$0.3	\$0.3	\$0.3	\$0.0
Non Departmental	\$13.6	\$12.7	\$15.6	\$2.0
Total	\$106.7	\$101.3	\$112.5	\$5.8

2005-2006 Outlook

Major Expenditure Assumptions

- ❑ Provides for full funding of all 422 authorized General Fund positions
- ❑ Reflect health benefit cost sharing for all labor groups except Fire (arbitration pending).
- ❑ Includes General Fund share of first lease payment on new City Hall in 2006 (\$350,000). Existing leases scheduled to terminate at the end of 2005.
- ❑ Complies with all adopted fiscal policies

2005-2006 Outlook

Major Expenditure Assumptions (continued)

- ❑ District Courts
 - Assumes City will continue to contract with King County for District Court services
 - Does not include a contingency for an alternative arrangement if contract is terminated by King County
- ❑ Fire
 - Does not include additional funding for overtime costs above levels included in 2003-04 Budget. Department is currently over-expending in overtime.
 - Does not include funding to staff Fire Station #17 with 13FTEs at an ongoing cost of \$1.5 million annually.
- ❑ Ongoing funding of \$25,000 provided for the continuation of city-wide employee training (previously funded with one-time monies)
- ❑ Legal budget adjusted to reflect actual costs (\$282,000)

2005-2006 Outlook

Major Expenditure Assumptions (continued)

- ❑ Includes \$215,000 of funding for Community events which was previously funded with one-time monies.
- ❑ Ongoing funding of \$42,000 provided to support continued publication of Redmond Focus magazine
- ❑ Jails
 - Includes \$135,000 of additional funding to continue contract with King County and Yakima Jail for jail services, or 11% increase over current funding level of \$1.25 million

2005-06 Budget Balancing Options

Option 1: Authorize Additional Revenue

UNUSED TAXING CAPACITY FOR THE GENERAL FUND

Major Tax Sources	2003 Budget	2003 Rate	Maximum Rate	2003 Estimated Remaining Taxing Capacity
VOTER APPROVAL				
Property Tax - Regular	\$11.0M	\$1.29	\$3.10	\$15.7M
COUNCIL MAY APPROVE				
Banked Capacity	\$1.4M	N/A	N/A	\$1.4M [2]
Electric Utility Tax	\$3.6M	5.50%	6.00%	\$.3M
Gas Utility Tax	\$1.0M	5.50%	6.00%	\$.1M
Telephone Utility Tax	\$3.6M	5.50%	6.00%	\$.3M
Cable TV Franchise Fee	\$.4M	5.00%	No limit	Each 1% generates apx \$90,000
Business License Surcharge	\$3.5M	\$67.50/FTE	N/A	Each \$1/FTE generates apx \$50,000
B&O Tax - Gross Receipts	\$0	0%	0.20%	\$17,600,000 [1]
Garbage Tax	\$.5M	6.00%	No limit	Each 1% generates apx \$75,000
Water/Wastewater Utility Tax	N/A	0.00%	No limit	Each 1% generates apx \$220,000
Stormwater Utility Tax	N/A	0.00%	No limit	Each 1% generates apx \$100,000

2005-06 Budget Balancing Options

Option 1: Authorize Additional Revenue (continued)

■ Property Tax Levy

- Voter approval is required for levy increases above 1%. 2004 statistical survey indicates 63% citizen support for raising taxes to maintain current services.
- Council must pass resolution by July 30 to place Levy lid lift on the September ballot.

2005-06 Budget Balancing Options

Option 2: Reduce Programs and Services by \$6.3 million

- Ongoing reductions of approximately \$6.3 million needed.

2005-06 Budget Balancing Options

Option 3: Revise Council Policies

- General Fund Operating Reserves
 - Total reserve for 2005-06 is \$4.9 million.
 - Each 1% represents \$490,000.

- Development Review Reserve
 - Staff will make a proposal to right-size reserve as part of the Development Review study.

2005-06 Budget Balancing Options

Option 3: Revise Council Policies (continued)

- \$3.3 million economic contingency currently unallocated (one-time)
- Transfers to CIP. (A portion of these monies are designated to fund the new City Hall.)
 - 5% of General Fund revenues: \$5.5M
 - Sales Tax on Construction: \$2.2M
- Transfers to Capital Equipment Replacement Fund: \$2.0 million
- Transfer to Fire Equipment Replacement Reserve: \$522,000

2005-06 Budget Balancing Options

Option 3: Revise Council Policies (continued)

- Other Transfers
 - Human Services per capita transfer: \$1.0 million
 - Arts per capita transfer: \$160,000
 - Fleet Maintenance: \$2.5 million
 - Information Technology: \$2.5 million

It is important to note that many of these transfers pay for services necessary to support daily operations.

2005-06 Budget Balancing Options

Option 4: Combination of new revenues, service/program reductions and policy revisions

Conclusion

The Road to Balancing the 2005-06 Budget

- City at crossroads
 - ❑ City has done a responsible job in maintaining a quality community, and managing its financial situation over the past four years in the face of limited resources and increasing expenditures due to inflation, service demands and unfunded mandates.
 - ❑ A critical point has been reached where basic programs and services will need to be reduced without an infusion of new revenues to balance the 2005-06 budget.
- Four paths to balance the budget
 - ❑ Authorize additional revenues.
 - ❑ Reduce programs and services.
 - ❑ Revise current City financial policies.
 - ❑ Combination of all of the above.